

Message Text

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C O N F I D E N T I A L USNATO 0387

E.O. 11652: GDS

TAGS: ECON, EFIN, YO, NATO

SUBJECT: ECONADS: REPORT ON RECENT TRENDS IN THE YUGOSLAV ECONOMY

REF: A. USNATO 237

B. USNATO 275

ECONADS MEETING JANUARY 23 HAD ONLY BRIEF DISCUSSION OF DRAFT REPORT ON YUGOSLAV ECONOMY (AC/127-WP/413 AND CORRIGENDUM) SINCE US AND SEVERAL OTHER DELEGATIONS STILL AWAITING COMMENTS FROM CAPITALS. DANISH ECONAD SAID HIS GOVERNMENT BELIEVES DRAFT REPORT IS GENERALLY ACCURATE ALTHOUGH MANY STATISTICS ARE OUTDATED. HE WILL DISTRIBUTE MORE DETAILED COMMENTS IN WRITING TO COMMITTEE MEMBERS. CHAIRMAN EXPRESSED APPRECIATION FOR COMMENTS RECEIVED THUS FAR WHICH, TOGETHER WITH ADDITIONAL COMMENTS EXPECTED FROM CAPITALS, WILL PERMIT ECONOMIC DIRECTORATE TO DRAFT MORE PRECISE AND BALANCED STUDY.

2. CANADIAN ECONAD DISTRIBUTED FOLLOWING PRELIMINARY COMMENTS FROM CANADIAN EMBASSY BELGRADE. BEGIN TEXT:

IN GENERAL, WE FIND THE SUMMARY AND CONCLUSION SECTION OF THE DOCUMENT SOMEWHAT OVERSIMPLIFIED AND TOO DRAMATIC IN ITS STATEMENT OF THE POSSIBLE POLITICAL CONSEQUENCES OF CURRENT YUGOSLAV ECONOMIC DEVELOPMENTS AND PROBLEMS. THE STATISTICAL
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DATA AND DISCUSSION OF DEVELOPMENTS IS ALSO RATHER DATED SINCE IT DOES NOT SEEM TO COVER THE MOST RECENT PERIOD. THE YUGOSLAV ECONOMY FACES REAL PROBLEMS AND UNCERTAINTIES, PARTICULARLY WITH RESPECT TO INFLATION, BALANCE OF PAYMENTS (TRADE) DEFICIT,

AND EMPLOYMENT, BUT TO SUGGEST THAT INFLATION, A WORLD-WIDE PHENOMENON, COULD BE DISASTROUS (PARAGRAPH TWO) FOR YUGOSLAVIA SEEMS TO OVERSTATE THE CASE, AT LEAST IN RELATIVE TERMS. ALTHOUGH ECONOMIC DIFFERENCES OF INTEREST DO EXIST AMONG THE YUGOSLAV REPUBLICS AND FRICTION IS POSSIBLE, CURRENT EVIDENCE DOES NOT SUGGEST IMMEDIATELY SERIOUS CONFLICTS WHICH COULD "THREATEN THE COHESION OF THE YUGOSLAV FEDERAL SYSTEM" (PARAGRAPH TWO). SUCH A THREAT, EXACERBATED BY ECONOMIC DISPARITIES, IS UNDOUBTEDLY ONE POSSIBILITY BUT THE RECENT ADOPTION BY THE FEDERAL ASSEMBLY OF A RESOLUTION ON ECONOMIC AND SOCIAL POLICY FOR 1975 APPEARS EVIDENCE OF A RELATIVELY CO-OPERATIVE JOINT FEDERAL-REPUBLICAN EFFORT TO FACE NATIONAL ECONOMIC PROBLEMS.

YUGOSLAVIA HAS BEEN HIT (PARAGRAPH THREE) BY TRADE PROBLEMS. THE CULPABILITY OF YUGOSLAVIA'S "STOP-GO" POLICY IS A MATTER OF JUDGEMENT. NOR IS IT CLEAR WHAT "TENSIONS" (PARAGRAPH THREE) THIS POLICY IS RESPONSIBLE FOR.

THE REFERENCE (PARAGRAPH FOUR) TO "REPETITION OF PAST MISTAKES" AND THEIR CONSEQUENCES WOULD SEEM TO CALL FOR CLOSER ANALYSIS AND GREATER ELABORATION. PARAGRAPH SEVEN IS NOW QUITE DATED AND A CURRENT ACCOUNT DEFICIT OF DOLLARS 720 MILLION FOR ALL OF 1974 IS OFFICIALLY ESTIMATED (PARAGRAPH NINE). THIS DEFICIT IS AT LEAST PARTIALLY BEING MET BY A REDUCTION OF FOREIGN EXCHANGE RESERVES (PARAGRAPH TEN). YUGOSLAV SOURCES STATE THAT 18-20 PERCENT OF ANNUAL FOREIGN EXCHANGE EARNINGS ARE STILL SUFFICIENT TO MEET ANNUAL DEBT REPAYMENT OBLIGATIONS AND A 20 PERCENT CEILING IS RETAINED AS THE 1975 TARGET.

ALTHOUGH PARAGRAPH ELEVEN IS PERHAPS REASONABLE, IT DOES APPEAR RATHER NEGATIVE IN TONE AND THE CONCLUDING SENTENCE AGAIN RAISES VAGUE POSSIBILITIES BUT DOES NOT ANALYSE ANY PROBABILITIES. THE DEVELOPMENT OF A CURRENTLY RELATIVELY DECENTRALIZED ECONOMIC SYSTEM SEEMS TO HAVE GONE TOO FAR TO PERMIT A STRONG RETREAT TOWARD ECONOMIC RECENTRALIZATION IN THE IMMEDIATE FUTURE. YUGOSLAVIA WILL MOST CERTAINLY DEVELOP CONFIDENTIAL

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FURTHER CO-OPERATION WITH COMECON ON THE BASIS OF ACCRUED ADVANTAGES, BUT HARDLY AT THE EXPENSE OF OTHER ECONOMIC CONNECTIONS AND PARTNERS. INDEED, A GREAT STRESS IS CURRENTLY BEING PLACED HERE ON DEVELOPING ECONOMIC CO-OPERATION WITH DEVELOPING COUNTRIES, PARTICULARLY THE OIL PRODUCERS. IN PARAGRAPH EIGHT, THE SUGGESTION OF A POSSIBLE SHIFT IN YUGOSLAV TRADE POLICY IS APPARENTLY BASED ON EARLY 1973 STATISTICS AND WE ARE SKEPTICAL THAT ANY CURRENT DATA WOULD CONFIRM THIS SUGGESTION.

OVERALL, WE BELIEVE THE REPORT IS OVERLY TECHNICAL AND NOT SUFFICIENTLY EVEN OR BALANCED IN ITS APPROACH TO YUGOSLAV ECONOMIC TRENDS AND THE POSSIBLE POLITICAL CONSEQUENCES.

QUENCES.

END TEXT.

3. MISSION WOULD APPRECIATE WASHINGTON COMMENTS BY JANUARY 29.

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<< END OF DOCUMENT >>

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